Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **03-4285/3**	Introduction Number **AB-947**

Subject

Property tax exemption for low-income housing provided by a benevolent association

Fiscal Effect

State:

☐ No State Fiscal Effect
☐ Indeterminate

☐ Increase Existing Appropriations
☒ Decrease Existing Appropriations
☐ Create New Appropriations

☐ Increase Existing Revenues
☒ Decrease Existing Revenues

☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
☐ Decrease Costs

Local:

☒ No Local Government Costs
☐ Indeterminate

1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☐ Towns ☐ Village ☐ Cities
   ☐ Counties ☐ Others
   ☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☒ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
DOR/ Daniel Huegel (608) 266-5705	Dennis Collier (608) 266-5773	3/24/2004

Fiscal Estimate Narratives

DOR 3/24/2004

LRB Number **03-4285/3**	Introduction Number **AB-947**	Estimate Type **Original**
Subject		
Property tax exemption for low-income housing provided by a benevolent association		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, property that is owned by an organization exempt from property taxes and leased retains its tax exemption only if the lessee is also exempt from property taxes. In a 2003 decision (Columbus Park Housing Corporation v. Kenosha), the Wisconsin Supreme Court held that property owned by Columbus Park, a non-stock, non-profit corporation that buys and rehabilitates residential property and rents these properties to qualified low-income families, was not exempt from property taxation. The Court ruled that since the low-income families that rent from Columbus Park are not exempt from property taxes, Columbus Park's property was not exempt from property taxation. Previous to the decision, an organization such as Columbus Park was considered to be a benevolent association whose property was exempt under the provisions of sec. 70.11 (4), Wisc. Stats.

Under the bill, retroactive to 2002 assessments, the following types of property owned and exclusively used by a benevolent association would be exempt from property taxes: (1) a residential care apartment complex, (2) a community-based residential facility, (3) a nursing home, (4) a facility in which persons reside pursuant to continuing care contracts, and (5) low-income housing that satisfies Internal Revenue Procedure 96-32 ("safe harbor" requirements for relief of the poor and distressed). Under the "safe harbor" guidelines in Internal Revenue Procedure 96-32, an organization is considered tax-exempt if it meets two tests: (a) at least 75% of its housing units are rented to persons whose income is 80% or less of the area's median and (b) at least 60% of the units are rented to persons whose income is 60% or less than the area's median or at least 20% of the units are rented to persons whose income is 50% or less than the area's median.

Based on information from the exemption summary reports filed by municipalities with the Department of Revenue in 2002, it is estimated that about $862 million in housing would become taxable under the Columbus Park decision. By making the exemption retroactive, municipalities will not be permitted to assess taxes on these properties for the 2002 and 2003 assessment years under omitted tax statutes. Assuming that the entire $862 million would become exempt under the bill, and using the statewide average net tax rate for 2002/03 of $20.55 per $1,000 equalized value, this bill will shift about $17.7 million ($862 million X 0.02055) in property taxes to other property.

If the property affected by this bill had become taxable, renters would have qualified for the Homestead Credit, to the extent they met the income and other requirements for that credit. By exempting this housing from property taxes, the bill eliminates credits for these renters. (An exception exists for exempt housing that makes in lieu of tax payments, tenants of which can qualify for the credit.) Assuming that the credit could have been claimed on the entire $17.7 million in property taxes that would have been paid, and assuming that the credit would have equaled 45.2% of this amount (the credit as a percentage of rent constituting property taxes for claims in 2003), this bill reduces the Homestead Credit by approximately $8 million per year. This "reduction" essentially offsets unanticipated additional expenditures on Homestead Credits that resulted from the Columbus Park decision.

The State of Wisconsin imposes a tax of $0.20 per $1,000 of equalized value for purposes of state forestry programs. This bill will reduce the state forestation tax by $172,400 ($862 million X 0.0002).

Long-Range Fiscal Implications

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Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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Subject	
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):	

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		-8,000,000
TOTAL State Costs by Category	**$**	**$-8,000,000**
B. State Costs by Source of Funds		
GPR		-8,000,000
FED		
PRO/PRS		
SEG/SEG-S		

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		-172,000
TOTAL State Revenues	**$**	**$-172,000**

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	$-8,000,000	$
NET CHANGE IN REVENUE	$-172,000	$

Agency/Prepared By	**Authorized Signature**	**Date**
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